

Banking credit advances further, boosted by consumer loans

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- Today, Banxico published its banking credit report for October 2022
- Banking credit accelerated once again, climbing 4.5% y/y in real terms, better than anticipated (Banorte: 4.1%)
- Inside, the three categories improved. Consumer loans stood at 8.3%, its ninth consecutive month with positive rates, with corporate loans at 3.4% (previous: 3.0%), its highest level since July 2020. Finally, mortgages rose by 3.2%
- Non-performing loans (NPLs) backtracked, standing at 2.4% (previous: 2.3%). Consumer NPLs climbed to 3.0%, while mortgages improved to 2.7%. Finally, corporate loans were unchanged at 2.0%
- We maintain our expectation of an expansion in credit in the short-term, especially considering dynamism in consumption. However, we do not rule out a slight moderation in corporate loans, with mortgages remaining stable or even increasing marginally

In October, banking credit continued to expand, driven by consumer loans. Banking credit to the non-financial private sector increased 4.5% y/y in real terms in the tenth month of the year (see [Chart 1](#)), better than our estimate (4.1%) and up 71bps relative to the previous month. Hence, the headline figure added its seventh consecutive month with positive rates, also implying a new high since May 2020. We believe dynamism continues to be influenced by better dynamics of consumer fundamentals, with a strong [labor market](#) –driven by services and showing resilience in other key areas. On the other hand, considering prevailing [inflationary pressures](#) –mainly in the core component–, we believe that part of the growth (particularly in consumption) comes as a result of households seeking to smooth their consumption patterns. In this sense, it is important to highlight that to date there are no signs of deterioration of the current portfolio, so the current loans have been adequately managed.

By components, consumer loans once again led the expansion, up by 8.3% y/y (previous: +6.2%), its highest level since December 2016. Inside, all items improved, as seen in [Chart 2](#). We highlight growth both in credit cards at +11.3% (previous: +6.9%), and in durable goods at +2.9% (previous: +1.7%). Also to the upside, ‘others’ accelerated from 20.1% to 22.4%. Corporate loans picked up to +3.4% from +3.0%. Behavior inside remained skewed upwards, as shown in [Table 1](#). Construction was the item with the largest improvement, at -1.6% (previous: -4.1%), followed by ‘other services’, at +7.0% (previous 4.6%). On the contrary, sectors with a deterioration include mass media at 6.7% from 11.5% in September, along with mining at +0.7% (previous: +2.3%). Lastly, mortgages were better for a second consecutive month at 3.2% (previous: 3.0%). Additional dynamism is explained by the residential category, up by 3.9% from 3.7%. Nevertheless, low-income housing fell further to -11.2% (previous: -9.7%).

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Non-performing loans represent 2.4% of the total portfolio, climbing by 4bps. Inside ([Chart 3](#)), NPLs for consumer loans rose by 14bps, to 3.0%. Meanwhile, the index for mortgages was down, standing at 2.7% (previous: 2.8%). Finally, corporates were unchanged at 2.0%. Despite of the marginal increase, we believe NPLs maintain an adequate level and, even more important, have achieved relative stability throughout the year despite the central bank's monetary tightening.

Elements in place for credit to maintain its expansion in the short-term.

Considering our macro views for the coming months, we anticipate that credit will continue growing for the rest of the year and in early 2023. We believe consumer loans will be the main driver. Given a more challenging outlook, we do not rule out a slight moderation in corporates.

In the detail, dynamism in consumer loans would remain favored by fundamentals, specifically employment. In addition, purchases related to *El Buen Fin* and year-end sales made through credit or payroll cards to take advantage of additional discounts or financing (*e.g.* interest-free periods, fixed interest rates, deferred payments, draws, etc.) will likely be an important driver. Another factor that may boost loans is the proportion of households seeking to finance their consumption to face inflation. We have already mentioned this in previous reports and, once again, we reiterate that this does not mean that we anticipate a deterioration in NPLs.

In corporate loans, we identify two effects that could lead to a moderation: (1) The extension of the monetary tightening cycle; and (2) our view that industry could be the sector with the least dynamism in 4Q22, possibly translating into a lower demand for credit by large and medium-sized companies. A third factor that could compensate for this is the need of small companies to build-up inventories or production processes. More structurally, there is evidence that nearshoring is gathering pace. However, as most of this investment is made by foreign companies, loans tend to be obtained mostly from abroad.

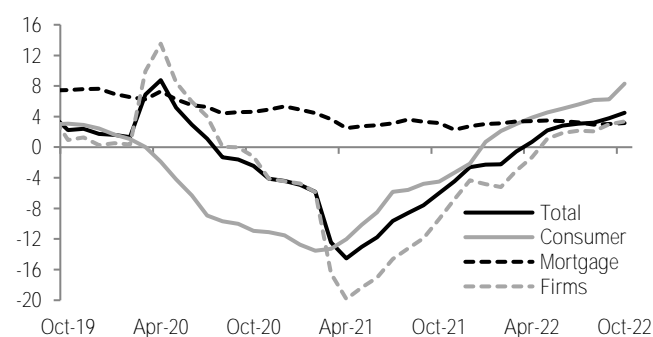
Lastly, we anticipate some stability in mortgages, although we remain attentive to new credit rules from INFONAVIT. We are particularly interested in the one that will allow independent workers –who have not used their housing account in the institute– to access a co-financing agreement with private banking, which could translate into higher demand for this type of loans.

Banking credit % y/y in real terms

	Oct-22	Sep-22	Oct-21	Jan-Oct'22	Jan-Oct'21
Private banking credit	4.5	3.8	-6.0	1.5	-9.5
Consumer	8.3	6.2	-4.5	4.6	-9.2
Credit cards	11.3	6.9	-7.1	5.2	-10.5
Payroll	7.1	6.6	-0.3	5.2	-4.5
Personal	5.7	5.6	-8.2	3.4	-18.5
Durable goods	2.9	1.7	-5.0	0.0	-4.0
Auto loans	-1.4	-2.9	-7.9	-4.6	-7.7
Other durable goods	30.8	31.5	20.1	30.8	30.8
Others	22.4	20.1	13.9	19.7	-3.9
Mortgage	3.2	3.0	3.2	3.2	3.4
Low-income housing	-11.2	-9.7	-16.5	-13.1	-17.1
Medium and residential	3.9	3.7	4.4	4.1	4.8
Firms	3.4	3.0	-9.4	-0.1	-13.4
Primary activities	7.6	8.8	-2.0	5.2	-7.7
Mining	0.7	2.3	-18.2	-4.4	-33.5
Construction	-1.6	-4.1	-16.3	-8.9	-16.9
Utilities	2.2	0.6	-9.9	-2.3	-8.5
Manufacturing industry	3.7	3.4	-11.7	-1.9	-17.6
Commerce	0.9	0.2	-11.2	-1.7	-17.5
Transportation and storage	6.7	7.5	-3.6	6.0	-14.3
Mass media services	7.9	11.5	-7.7	8.1	-20.8
Real estate services	2.5	3.0	-14.1	-1.8	-14.6
Professional services	3.5	3.4	-8.7	0.6	-15.3
Lodging services	0.6	1.3	-3.6	0.5	-6.3
Other services	7.0	4.6	-8.0	4.0	-7.1
Not sectorized	3.3	2.1	4.1	1.1	4.0
Non-banking financial intermediaries	11.7	9.1	-18.8	-4.0	-24.4

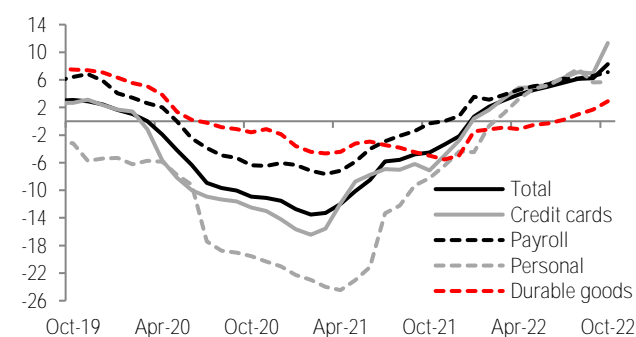
Source: Banxico

Chart 1: Banking credit % y/y in real terms



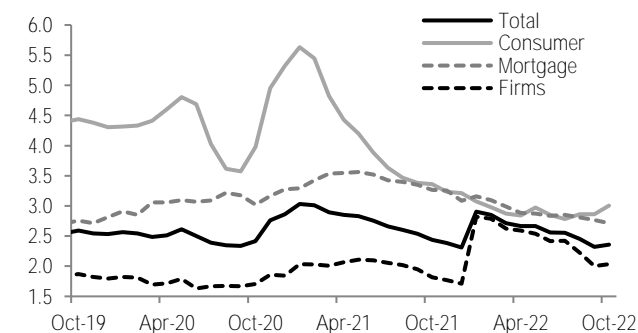
Source: Banorte with data from Banxico

Chart 2: Consumer credit % y/y in real terms



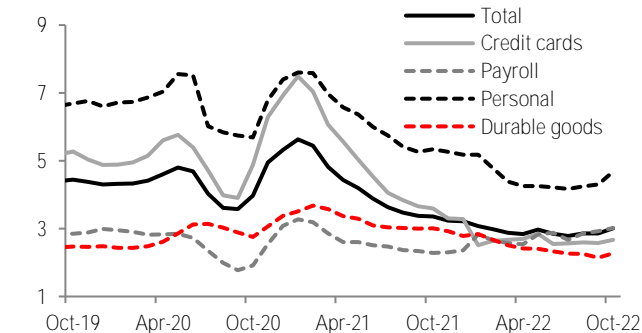
Source: Banorte with data from Banxico

Chart 3: Non-performing loans % of total portfolio



Source: Banorte with data from Banxico

Chart 4: Non-performing loans: Consumer credit % of total portfolio



Source: Banorte with data from Banxico

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